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Improving Aid Effectiveness in Aid-Dependent Countries: Lessons from Zambia

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Abstract

Zambia was a middle-income country when it achieved independence from Great Britain in 1964. After decades of international aid Zambia has become a low-income country, and its per capita GDP is only now returning to the levels it had reached over forty years ago. While aid is far from the only variable at work in Zambia's development, its impact has been questionable. This paper examines the issue of aid effectiveness in Zambia, especially in terms of how the incentive structure faced by donors may lead to decreased accountability and inadequate concern for long-term outcomes, rendering aid less beneficial. The paper concludes by proposing a revised approach to the provision and use of international aid in Zambia, as well as in other aid-dependent countries in Sub-Saharan Africa.

Keywords: aid effectiveness, Zambia, donors, projects, aid incentives.

JEL code: F35, 019, 022, 055.

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[4] The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent. The authors would like to thank Anca Dumitrescu, Alan Gelb, Olav Lundstøl, Patricia Macchi and Shantanayan Devarajan for helpful comments. This paper was presented at the World Bank economists' conference in Washington DC in 2010.

I. Introduction

The vision of aid that dominated the international development discourse[5] in the early years of large-scale development operations, was that external financing functioned as a vital source of ancillary revenue for recipient countries; it helped to fill financing gaps and boosted capital investment, which in turn led to more rapid growth in countries with limited domestic savings and little or no access to international private capital markets. Evidence accumulated over decades of experience with international development assistance suggests that this picture is not entirely inaccurate, and aid advocates (Sachs, Stiglitz, Stern, Collier and others) point to the positive contribution of aid to development in countries such as Botswana, Indonesia, South Korea, Tanzania and Mozambique (Radelet, 2006).

However, in many other countries, e.g. Chad, the Democratic Republic of Congo[6], Niger, Mali, Central African Republic, Burundi and Malawi, to name a few in Africa, and in Haiti, Papua New Guinea, Somalia, Pakistan and Sri Lanka, in other regions, aid has proven largely ineffective in securing lasting change. Moreover, as critics of international aid (Friedman, Bauer, Easterly and others) have pointed out, in some cases aid has apparently harmed recipient economies by enlarging government bureaucracies and enriching elites while doing little to spur growth or reduce poverty (*ibid*.). Bad governance, high levels of political and petty corruption, general unaccountability on the part of donors and recipients, poor management of aid mechanisms, and the inability to establish private-sector stability in recipient countries are all identified as contributing factors in the failure of development efforts (Easterly, 2003, 2006).

The fundamental question of the current development debate is how to make aid more effective[7] in achieving its economic and human-development objectives, and many analysts have suggested that the best way to do this is by focusing on demonstrable, preferably quantifiable results in order to gauge the cost-effectiveness of different aid strategies. A number of theoretical and empirical studies have raised questions about the ultimate impact of international aid, largely by focusing on the relationship between aid and growth. However, these studies have tended to yield ambiguous or conflicting results.

The most influential study to highlight the relationship between aid effectiveness and the domestic policy environment of recipient countries is by Burnside and Dollar (2000). The authors find that aid is effective in enhancing growth only in the presence of sound macroeconomic policies, namely well-controlled inflation, the maintenance of a structural budget balance or surplus, and a position of trade openness; this implies that selectively allocating aid in favor of countries with sound policies would be most effective in supporting growth. Burnside and Dollar’s findings opened a new debate on the structure of aid financing and were codified in the official guidelines used by the World Bank and a number of donor countries. Nevertheless, Burnside and Dollar's findings have been repeatedly challenged by subsequent research (see Hadjimichael *et al.,* 1995; Durbarry *et al*., 1998; Hansen and Tarp,

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[5] This idea was developed during and after WWII; it informed the founding of the Bretton-Woods institutions, of which the World Bank and IMF are a part as pointed out by Easterly (2009), and still prevails, though often in modified form, throughout much of the current international development discourse.

[6] From 1950 to 2001 Chad and the Democratic Republic of Congo experienced zero and negative rates of per capita growth, respectively, despite the financial support they received (Easterly, 2006).

[7] According to OECD-DAC aid is effective when it is delivered through efficient and reliable institutions, when it is allocated predictably and is country-owned, and when donor operations are successfully harmonized.

2000, 2001; Dalgaard and Hansen, 2001; Easterly *et al.*, 2003; Jensen and Paldam, 2003; and Roodman, 2007).

With the progressive shift of the debate on aid effectiveness from a myopic focus on growth to increasingly inclusive conceptions of poverty reduction, several studies have concentrated on evaluating aid effectiveness in reducing poverty by analyzing not only its impact on overall growth but on basic human development indicators such as infant mortality, primary school enrolment rates, and life expectancy (Mosley *et al.*, 1987; Boone, 1996). Although many recent analyses have relied on longitudinal data, Carter (2010) demonstrates that that existing research into the relationship between international aid and taxation in recipient countries has been compromised by conceptual and econometric deficiencies between cases, concluding that “detailed case studies […] may prove more illuminating than cross-country empirics”. Therefore, this study will focus on aid and development in Zambia, which provides a particularly revealing example of the dynamic interaction between aid and a wide variety of other domestic and international factors.

Zambia is both aid-dependent[8] and resource-rich, and has experienced a development trajectory similar to that of several other resource-rich SSA countries. In 1965, just after achieving its independence, Zambia’s per capita GDP was almost three times that of South Korea. By 1975, however, their per capita GDP was roughly equal, and by 2001 South Korea’s per capita GDP exceeded Zambia’s by more than twenty times over (McPherson 2004.1). During the long period of economic stagnation that began in the 1970s, and which was due in large part to a highly inefficient degree of state control over the economy, the Zambian government started to become increasingly dependent on international aid flows. After several decades of recurrent grant-based and concessional lending operations, and despite a modestly accelerating growth rate in the past decade, Zambia lost its status as a middle-income country and remains a low-income country today. Like many resource-rich developing countries, Zambia is characterized by a high level of poverty (in 2006, 59 percent of the population was below the national poverty line according to the Zambian government’s Living Conditions Monitoring Survey, and the national poverty rate has remained at a steady 60 percent based on preliminary data for 2010); it also exhibits a radically unequal income distribution (the Gini coefficient is currently 0.53) and has an undiversified economy that remains overwhelmingly dependent on primary commodity exports, in this case copper and cobalt. The ultimate contribution of aid to development in Zambia is therefore questionable.

In the case of low-income countries in Sub-Saharan Africa, and especially those already evincing poor governance indicators, it appears that sustained aid dependence has had negative impacts on domestic political and administrative accountability and on the overall quality of governance (Bräutigam and Knack, 2004). According to Nobel Laureate Elinor Ostrom (2010) aid often fails to achieve its intended results because of perverse incentives faced by the recipient government, incentives which are caused by a number of factors common to the operations of most donors. These include aid agencies’ preference for easily identifiable short-term results over less obvious but potentially more important long-term

[8] McPherson (2004.2) defines nine criteria for identifying aid-dependent countries. According to this analysis aid dependency is a function of: (i) the duration of major aid programs, (ii) the size of aid flows relative to domestic resources mobilized for public capital formation, (iii) the share of locally generated resources used for external debt service, (iv) the import coverage provided by aid flows, (v) the value of aid flows relative to the current-account balance , (vi) the size of any changes in the external debt stock due to the country’s own financing efforts, (vii) the proportion of public health, education and infrastructure budgets that are aid-financed, (viii) the expected results of aid and penalties (if any) for underachievement, and (ix) the presence or absence of a program to reduce aid flows over time.

objectives, as well as their bureaucratic desire to spend the entirety of their allocated budgets within the fiscal year, and the fact that employees in aid agencies typically do not remain in the same assignments over the long term, making it difficult to hold them accountable for poor results and reinforcing their short-term bias. Aid dependence also tends to undermine or limit the scope for domestic government accountability, which may have a negative impact on economic and social development outcomes through one or more of several recognized channels:

(1) By substituting international transfers for domestic tax revenue aid dependence creates incentives for governments to be accountable to donors rather than to their own citizens (Bräutigam, 2000). When governments respond to these incentives and donors exercise a high degree of control over policy and spending decisions, domestic institutions such as national legislatures and public oversight agencies are likely to be marginalized (Eberlei and Henn, 2003; Langdon and Draman, 2005), consequently domestic ownership of donor-sponsored reform initiatives may be undermined and the scope for domestic accountability and the importance of democratic decision-making may be diminished (Whitfield and Fraser, 2008);

(2) Similarly, aid may slow the emergence of a more legitimate, sustainable, tax-based social contract between citizens/voters/taxpayers and the state (OECD, 2008c).[9] Aid may even undermine the emergence of effective tax systems in recipient countries, since governments in these countries have less incentive to collect taxes when large-scale aid flows are available,[10] and governments may choose not to collect certain taxes if their accountability to aid agencies is less rigorous than their accountability to domestic taxpayers;

(3) A lack of transparency in aid mechanisms may further limit the scope for domestic accountability in the budgetary and public-policy processes. When legislatures, auditing and other oversight institutions, and civil society organizations cannot control the amount of aid received or influence how it is spent, or even monitor its impact, they will not be able to hold the relevant agencies accountable for their performance. In many developing countries some portion of international aid is channeled outside the formal budget process, and this considerably limits the scope for domestic accountability (CABRI/SPA, 2008).

Aid, of course, is not the only factor at work in a country's development. Even at their height, aid flows to Zambia were dwarfed by the economic size and trade-balance impact of the mining industry, and the damaging effects of primary-commodity export dependence have been repeatedly observed even in countries with strong government institutions, direct access to world markets and a high degree of external stability. Zambia, by contrast, is a landlocked country surrounded by several states with a history of violent conflict, extreme economic volatility, and in some cases both. Structural economic factors (the presence of high-value resources, the absence of a direct link to world markets) and exogenous political and economic uncertainty have undoubtedly exerted a strongly negative influence on Zambian development. These conditions, however, are largely beyond the ability of the government and its cooperating partners to influence; aid remains the primary area in which the domestic administration and the international community can promote development objectives.

[9] Moyo (2009) presents the case that aid may actually reduce the accountability of political leaders in the African continent.

[10] This is one effect that seems especially likely in the case of Zambia, since the government's preference for aid is reinforced when the most obvious source of tax-revenue alternatives come from large international companies, such as those operating in the Zambian mining sector, which due to their organizational resources and political-economic importance are already capable of influencing government policy in their favor.

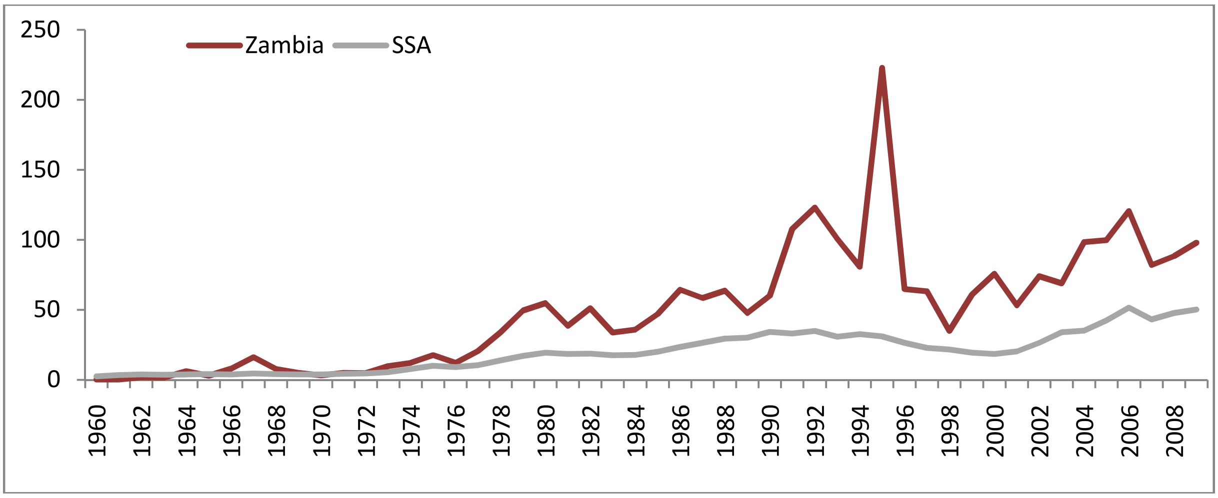
The goal of this analysis is to use Zambia as a case study by drawing lessons from various specific project evaluations. Political economy issues and the incentives faced by both the donor community and the government are crucially important in explaining the poor results generated by many aid-financed projects. The conclusions of this analysis are particularly concerned with the relative limited ability of international aid to promote governance reform, as well as the ways in which the incentive structure of some donors may lead to decreased government accountability and even promote complacency on the part of Zambian civil society regarding the government's behavior, and how the use of aid flows may distort the incentives of public officials in ways that potentially damage growth and perpetuate poverty.

This paper is divided as followed: the second section, which follows this introduction, presents an assessment of long-term trends in aid flows in Zambia and highlights recent developments therein. The third section presents an analysis of the impact of certain specific donor-financed projects on key social indicators. The fourth section discusses why some projects have failed to achieve their objectives, with particular attention paid to political-economy effects. The final section presents the conclusions of the analysis and proposes a set of policy recommendations, which while specific to the Zambian context, may offer insight into the manifold challenges of ensuring better aid effectiveness in countries throughout Sub-Saharan Africa.

II. Aid in Zambia and its limited impact on economic and social development

Zambia started to receive significant aid flows in the mid-1960s. For most of the first decade of Zambia's independence, aid was provided mainly in the form of technical assistance and was used to support government-initiated projects. However, since the mid-1970s the government's budget has become increasingly dependent on external financing, and Zambia is now one of the most aid-dependent countries in Sub-Saharan Africa (SSA). Figure 1 shows net official development assistance (ODA) per capita in Zambia and in SSA as a whole.

Figure 1: Net ODA per capita: Zambia and SSA, 1960-2009, in current US$.

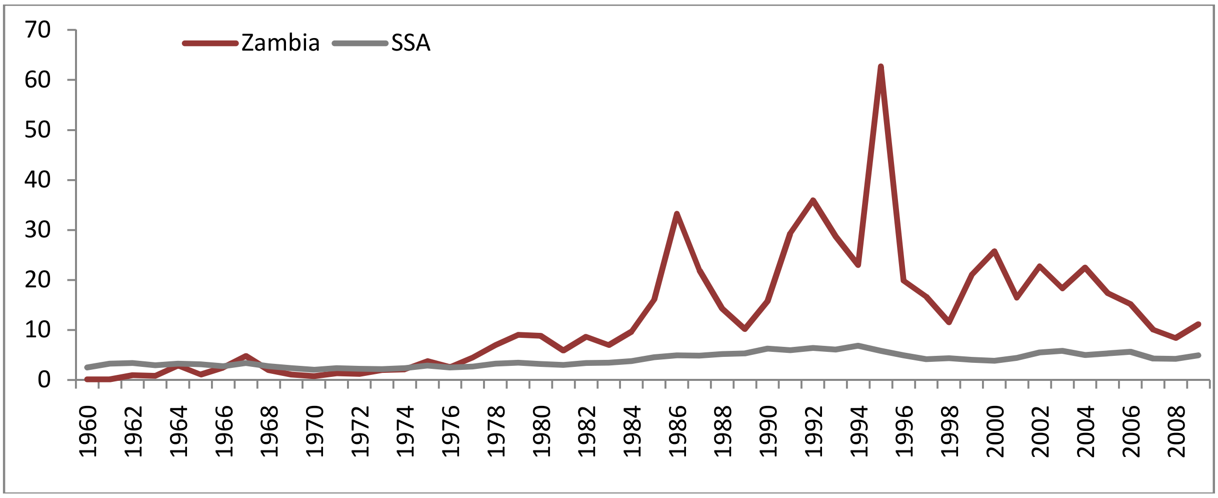


Source: OECD database.

ODA per capita in Zambia clearly trends upward through 1995, when it hit a peak of US$225.95, nearly seven times the SSA average. Since 1995 Zambian ODA per capita has fallen to an annual average of about US$79[11], which is still more than twice the SSA average of US$34. However, the gap between Zambian ODA per capita and that of the region as a whole seems to be diminishing over time (Carlsson et al., 2000). Although the growth of the Zambian economy has accelerated in recent years, the leveling-off of per-capita aid flows (which despite the spike in 1995 have remained roughly constant since 1991) did not reflect an increase in private-sector productivity or domestic revenue mobilization, but was rather the result of a general decline in ODA to the Africa region from the mid-1990s to the mid-2000s , due in part to rising donor concern about the credibility of governments in recipient countries with regard to good governance and anticorruption efforts, and also as a consequence of increasing pressure on donors' national budgets (especially in the context of the Maastricht criteria). Following the adoption of the Millennium Development Goals (MDGs) in 2000 donor commitments to scale up aid translated into increasing ODA flows, which reached a second peak of about US$121 per capita in Zambia and US$50 in SSA in 2006. Meanwhile, the ratio of net ODA flows to gross national income (GNI) in Zambia has oscillated since the 1980s, reaching a peak in 1995 of about 63%, more than 10 times the average for the SSA region (at 6%).

[11] Average over 1996-2009.

Figure 2: Net ODA to Zambia and SSA, 1960-2009, as % of recipient GNI.



Source: OECD database.

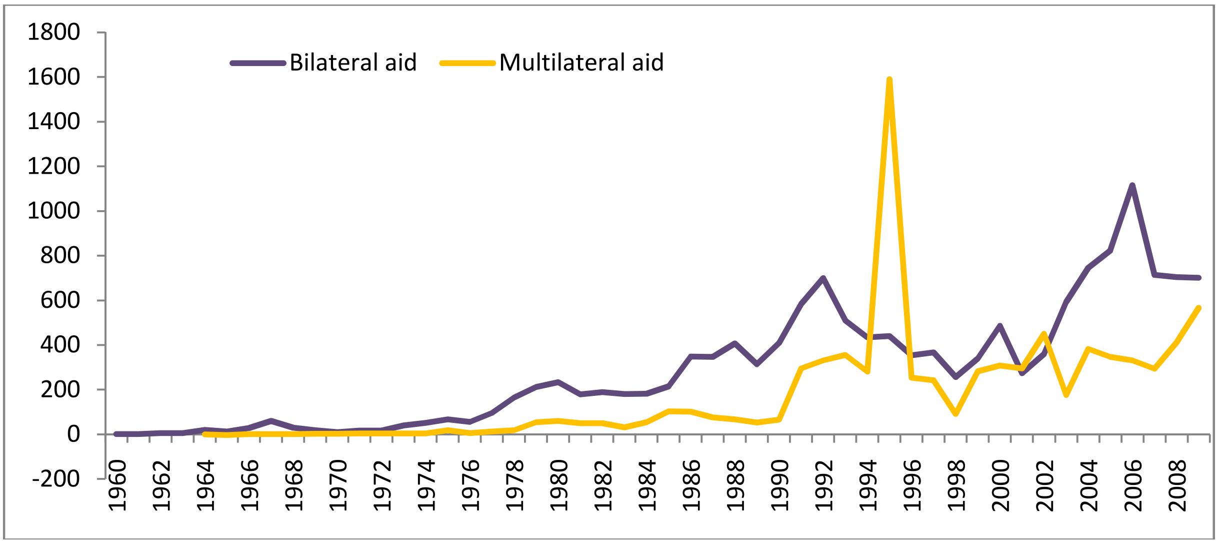
In Zambia, the increase in ODA from the mid-1970s to the mid-1980s and from the early 1990s to the mid-1990s, both in per capita terms and as a percentage of GNI, was significant, and much higher than in SSA as a whole. This increase in aid flows was, in the first case, the consequence of a sharp decline in copper prices (following a global copper-price spike prompted by the materiel demands of the Vietnam War) and a subsequent increase in oil prices (spurred by the OPEC crisis of the 1970s). These were short-term shocks, but they pushed the Government of the Republic of Zambia (GRZ) to increase foreign borrowing to finance its domestic expenditures (Nokkala, 2001). This in turn resulted in a significant rise in foreign debt. With debt-service obligations growing to unmanageable levels, Zambia began accessing new options for debt relief (see Table 1, below), including bilateral initiatives and, more recently, multilateral initiatives offered by the International Monetary Fund (IMF), the World Bank and the African Development Bank, especially through the Heavily Indebted Poor Countries (HIPC) program and the Multilateral Debt Relief Initiative (MDRI). Zambia's participation in these programs partially explains the recent leveling-off of aid flows, since from the donor perspective debt relief and new aid transfers are essentially the same thing.

Table 1: Debt service payments and external aid flows, Zambia, 1992-1999, in millions of US$.

	1992	1993	1994	1995	1996	1997	1998	1999
Debt service paid, US$ million	354	326	409	1,584	319	217	147	136
Debt service paid as % of exports of goods and non-factor services	29.6	31.2	34.8	120.4	28.7	17.6	16.0	16.2
Debt service paid as % of GDP	10.7	10.0	12.2	45.7	9.7	5.6	4.6	4.3
Debt service paid as % of government revenue	58.3	63.2	60.9	230.2	47.1	27.9	24.4	24.5
Gross external inflows	1,106	795	550	1,816	510	401	297	511
Net external inflows	752	469	141	232	191	184	150	375

Source: Nokkala (2001) based on IMF(200b).

Figure 3: Bilateral and Multilateral ODA, Zambia, 1960-2009, million US$.



Source: OECD database.

Despite many years of large-scale aid, which has exhibited an increasing overall trend in the last decade, GDP per capita growth has not increased accordingly[12] (see Figure 4). The situation has even deteriorated to such an extent that, by 1985, the World Bank re-classified Zambia from a low-middle income country to a low-income and by the early 1990 Zambia

[12] In the absence of counterfactual, it can also be argued that the situation would have been worse without aid. Being worse or not without aid, the objectives set in most projects have not been met.

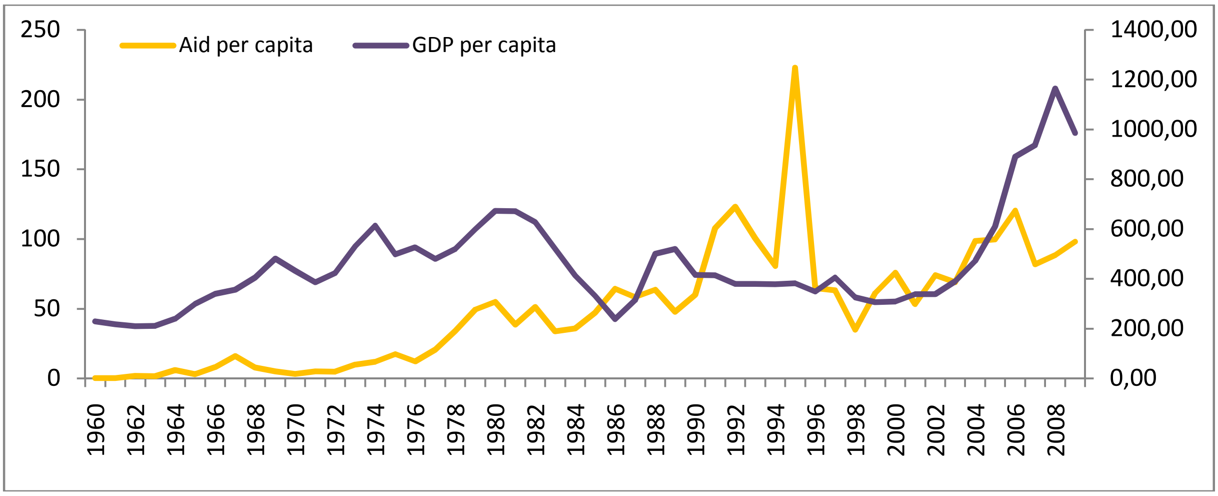
was included on the list of least developed countries by the United Nations Assembly. Zambia experienced one of the worst economic declines in SSA (Carlsson, 2000).

Even though in recent years (starting 1999) Zambia experienced strong economic growth with an average annual real GDP rate of more than 5 percent, growth has not been accompanied by significant poverty reduction. Growth pattern in Zambia does not appear to have been pro-poor. The overall levels of poverty remain high, at 59 percent according to the 2006 Living Conditions Monitoring Survey LCMS[13]. According to preliminary estimates from the 2010 LCMS, overall poverty levels have remained unchanged, at about 60 percent.

Nevertheless, there have been some improvements in social indicators, i.e. education and health—such as increases in the primary and secondary school enrolments[14], marginal improvements in youth literacy rate, reductions in the under-five and maternal mortality rates (see Table 2). The aid by sector (Table in Annex 1), confirms that over the period 1995-2009 the flows were mainly directed to social sectors, especially health sector (but also to the action related to debt relief).

However, the United Nations Human Development Index (HDI) has not much improved (see Table 3). Zambia is ranked 150 in the HDI out of 169 countries worldwide in 2010, and 26 out of 43 in SSA region.

Figure 4: Aid per capita and GDP per capita, Zambia, 1960-2009, current US$



Source: World Development Indicators for GDP per capita and OECD database for aid data.

Table 2: Selected Social Sector Results

	Latest single year		
	1998-2001	**2002-2005**	**2006-2009**
Primary school enrollment (% net)	68.2	92.3	95.2
Secondary school enrollment (% gross)	25.6	33.5	45.6
Youth literacy rate (% of people ages 15-24)	69.5	69.1	74.8

[13] While in urban areas poverty rate was 27 percent in 2006, in rural areas the rate is much higher, about 77 percent in 2006.

[14] Challenges remain, such as limited access to education in rural areas, overcrowded classrooms, or the low quality of basic education.

Life expectancy at birth (years)	41.7	42.8	45.4
Under-5 mortality rate (per 1,000 live births)	165.7	155.3	141.3
Maternal mortality rate (per 100,000 live births)	600.0	560.0	470.0
Prevalence of HIV (% of population ages 15-49)	15.4	15.0	15.2
Headcount Poverty ratio (% of population)	66.8	58.4	59.3

Source: World Bank World Development Indicators and Central Statistics Office (CSO).

Table 3: Human Development Indicator, Zambia and SSA

	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010
Zambia	0.382	0.410	0.423	0.371	0.345	0.360	0.363	0.370	0.379	0.387	0.395
SSA	0.293	0.306	0.354	0.358	0.315	0.366	0.372	0.377	0.379	0.384	0.389

Source: Human Development Indicators Trends, UNDP.

According to McPherson "the rationale for designing a strategy that sustains growth and development is "impossible while Zambia remains as dependent on foreign resources as it has been since the early 1970s". His conclusions were the following: (1) Zambia regressed despite massive aid, (2) poverty increased despite aid, (3) aid did not stimulate restructuring of the economy, (4) a large part of its aid was simply wasted[15].

This paper attempts to explain the disappointing results of aid in Zambia and assess potential solutions for improving aid effectiveness.

III. Assessment of selected aid-financed projects

As in most SSA countries, aid to Zambia has been delivered through a variety of instruments. Donor coordination has also been strengthened in the last decade, impacting the relative effectiveness of different instruments. Budget support (through both general and sector-wide approaches) assumed a major role in the 1990s and 2000s, although project-based aid continues to be the most important instrument in terms of the total amount of financing.

Direct budget support was introduced in Zambia in the early 1990s. In 1993, sector-wide approaches (SWAps) for the health sector were developed[16] (Chansa, 2008; Chansa *et al*., 2008). SWAps were then expanded to other sectors in the Agricultural Sector Investment Program (ASIP) in 1996, the Road Sector Investment Program (ROADSIP) in 1998, and to the Basic Education Sub-Sector Investment Program (BESSIP) in 1999.

The World Bank's Logical Framework for Poverty Reduction Budget Support (PRBS) defines the purpose of aid as the reduction of poverty and the realization of the MDGs

[15] Recent audits of the public health and road construction sectors in Zambia support this conclusion.
[16] The National Health Strategic Plan 2001-2005 was designed to gradually transform the provision of funds to district "baskets" into a general health-sector basket (Ministry of Health, 2000, 2005). Before this plan, ODA funding modalities in the sector consisted of a mix of project-based and basket funding, as well as sector-wide and general budget support.

through improving the effectiveness of the national budget, which is recognized as GRZ's key policy instrument for poverty reduction. The PRBS document stresses the central role of the current Fifth National Development Plan (FNDP) as the overarching strategy and action plan for poverty reduction. Budget support represents approximately 30 percent of total aid in Zambia, according to data from 2008 and 2009, while project support accounts for the remaining 70 percent.

A donor harmonization process began to take shape in 2002.[17] In 2003, the GRZ and its cooperating partners (CPs) signed the Harmonization in Practice (HIP) Memorandum of Understanding. This progressively developed into the Wider Harmonization in Practice (WHIP) initiative. In October 2005, a Joint Assistance Strategy for Zambia (JASZ) was agreed upon by the GRZ and its CPs, and in May 2007 the JASZ 2007-2010 was signed.[18] The JASZ includes a medium-term framework developed by the CPs to manage their cooperation with the GRZ in accordance with the FNDP. The JASZ contains principles, commitments and proposed actions to be undertaken by the CPs across the five pillars of the Paris Declaration (2005), as well as advancing the Division of Labour exercise which was established as part of the HIP and WHIP processes. However, the JASZ contains no specific targets, nor does it define indicators against which its progress could be measured. A work plan was developed in late 2007, and some elements of this plan have since been implemented, but there have been no subsequent work plans and no systematic process is in place to follow up on the commitments made and actions agreed upon.

An evaluation of recent donor operations in Zambia across various programmatic sectors such as education, health, public sector reform, private sector development and general budget support[19] reveals two principal conclusions:

(1) Most aid-funded projects have been relatively or very successful in terms of their immediate outputs: schools are built, roads are rehabilitated, access to social services is improved, relevant administrative and legislation reforms are adopted and so on.

(2) But results have been much more limited regarding the quality of service delivery and the achievement of broader development objectives such as improving educational attainment, decreasing transport costs, raising the competitiveness of Zambian companies, and reducing rural poverty (which are, however, the rationale of aid-financed projects).

The most likely explanations for these mixed results can be linked to governance and political economy issues presented in the following section.

[17] Aid fragmentation has been identified as harmful to recipient ownership.
[18] The signatories to the JASZ include twelve bilateral donors, the European Commission, the United Nations, the World Bank and the African Development Bank. Although the GRZ is not a signatory to the JASZ or to the work plan, government actions are essential for the success of the JASZ.
[19] An overview of the major results of these projects is presented in Annex 2. Due to the relatively small number of such studies, some projects may be outliers and not representative of donor projects overall. This possibility is, however, limited by the broad sectoral coverage of the sample and the evidence of similar patterns emerging in multiple sectors.

IV. Why has aid not been more effective in Zambia? The importance of governance, political economy and incentive structures

In his study on aid dependency in Zambia, McPherson (2004.2) explained that "as foreign aid is currently being administered, most if not all aid agencies (and their NGO satellites) have lost sight of the reasons for providing economic assistance. Moreover, the Zambian government has been so 'hooked' on foreign aid that the pressure to ensure that aid continues flowing has distorted the government's whole approach to economic management". Further evidence supports these conclusions. In Zambia the impact of aid has been lower than expected in large part because donors are usually unable to address the aid-related incentive structure faced by local and national authorities. In addition, donors may present overambitious and unrealistic development plans, and often directly damage their prospects for success by insisting on needlessly complex or infeasible strategies.

1. Recipients' low quality of governance and inadequate oversight of public spending reduce the impact of donor-funded programs

Even if a recipient country's government is strongly invested in promoting economic growth and welfare of its population, its policymakers, as a rule, are also interested in staying in power. Sometimes political elites may deliberately sabotage their country's economic development if they fear that it would mobilize political opposition (Acemoglu *et al.*, 2002). And individual bureaucrats often try to increase their budgets in the hopes of enhancing their administrative positions (Niskanen, 1971), a phenomenon which frequently affects donor agents as well. At the same time, interest groups within the recipient country's political system, private sector and civil society lobby for their own rights and privileges, which may be inconsistent with broader public interest and the achievement of the government's stated development goals.[20] In extreme cases recipient governments may not even be interested in building effective economic and social institutions to improve living standards and reduce poverty, and bad institutions may be kept in place not for the benefit of the society as a whole, but for the benefit of the ruling elite.

To overcome this conflict of interest between recipients and donors one commonly used solution has been to tie aid to certain conditions. For example, recipients may be required to take concrete steps toward establishing governance systems that enhance their administrative and budgetary efficiency, promote private-sector growth, expand public service provision, or directly contribute to reducing poverty. However, conditionality does not always function as intended, either because the conditions have been tied to the wrong policy reforms or because they have not been adequately enforced, with future aid continuing to be disbursed regardless of whether the relevant conditions have been fulfilled (Svensson, 2003).

[20] A problem often faced by SSA countries is the absence of accountability and effective monitoring mechanisms within the public administration. This enables political leaders and powerful bureaucrats to use aid inflows to enrich themselves and reduces their incentives to implement democratic reforms and build new institutions. Consequently, the increase in government revenues provided by aid inflows may not lead to an increase in the provision of public goods, and in some cases may reduce it (Svensson, 2000). Several examples of aid resources being captured by politicians and local officials are provided by Reinikka and Svensson (2003) in a survey of SSA countries.

Zambia has long demonstrated a high degree of inefficiency in public spending. In 2003, the Public Expenditure Management and Financial Accountability Review (World Bank 2003) detailed numerous problems in this area. In particular, the Constitution was deemed to grant an excessive amount of discretion to the Ministry of Finance and National Planning (MoFNP), which could be misused in the absence of proper parliamentary oversight. In terms of budget preparation, the study found that budgets approved by Parliament were structurally overcommitted (i.e. their spending commitments routinely exceeded their available revenue), and disposition of actual expenditures at the end of the year significantly differed from original budget estimates.[21]

In 2010, following a well-publicized corruption scandal in the health sector, an auditing process was put in place to assess the magnitude of corruption and establish better control mechanisms. The impact of these reforms is not yet apparent. Though it may be too early to assess, there were a number of weaknesses in the reform program itself. Among the remedial measures undertaken by the government, integrity[22] and audit committees[23] were created. However, these may be subject to an inherent conflict of interest: integrity committees, for instance, are solely composed of institutional insiders. This is one method by which audit functions and oversight institutions may be weakened, but there are many others. For instance, a broader program of public sector reforms restructured all directorates and elevated their functional heads to the Director level, but the heads of accounting and auditing remained at the Assistant Director level. As a result, these units cannot exercise adequate oversight of their institutions due to their low rank in the public administration hierarchy. Moreover, the government's failure to provide adequate resources for the effective operation of either the Judicature or the Anti-Corruption Commission has, over the years, led to delays in the conclusion of some cases, especially those involving high-ranking individuals. According to Mwangala (2010), "political interference is evidenced by the selective application of convictions and discontinuation of some cases that legally ought to be prosecuted following the directives of the Director of Public Prosecution". Furthermore, even in those instances where administrative abuses have been found, recommendations made by the Public Accounts Committee on corrective measures have in most cases not been implemented due to lack of political will.

In her review of oversight institutions in Zambia,[24] Mwangala revealed that their failure to effectively achieve their mandates is primarily due to the politicization of the Zambian civil service. This, in turn, is the result of changes in the conditions of service for

[21] In order to address these weaknesses the World Bank recommended: (i) abolishing cash rationing, (ii) enforcing expenditure controls, (iii) properly recording spending commitments, especially for capital projects, (iv) systematically updating payroll lists to control the wage bill, and (v) reforming procurement practices and regulations to improve value-for-money in public expenditures (World Bank 2003).

[22] The integrity committees' mandate, *inter alia*, is to lead the fight against corruption, promote the development and internalization of the Code of Ethics, facilitate the development and implementation of service charters, and to consider and redress all complaints relating to ethical issues and unsatisfactory service delivery.

[23] These were set up in 2007 and are present in all Ministries, Provinces and Other Spending Agencies (MPSAs). Their mandate is to receive reports from Internal Auditors, evaluate and review audit policy, and evaluate management procedures.

[24] In Zambia, oversight functions at two stages. The first stage, internal oversight, relates to the checks and balances that focus on the prevention of abuses within the Ministries, Provinces and other Spending Agencies (MPSAs). These checks and balances are implemented by different institutions, the mandates of which focus on different aspects of the misuse-prevention chain. The second stage, external oversight, relates to the checks and balances that are a result of the failures of the prevention chain, and this takes place outside the MPSAs. External oversight consists of two parts: the audit and investigation chain, the focus of which is on establishing wrongdoing, and the prosecution chain, which is responsible for effecting punitive and remedial measures.

Permanent Secretaries, which began in 2003 with a switch to three-year, performance-based contracts. This initiative, though meant to harmonize the conditions of service for career civil servants with those for outside employees and to improve efficiency by tying the renewal of the contracts to performance, has instead resulted in a lack of job security. Moreover, the renewal of employment contracts has not typically been performance-based, and the termination of contracts has more often been due to political interference. Career civil servants are therefore compelled to cultivate the support of senior public officials[25] even at the expense of program quality (*ibid*.).[26] Consequently, adherence to financial regulations in these institutions has weakened, and a culture of misuse and patronage been allowed to develop. Whereas oversight institutions theoretically have the power to discharge public servants for violating regulations, most institutions do not do so.

There has also been a three-decade-long debate on whether or not to earmark funds for specific sectors (and give autonomy to the institution in charge of managing earmarked funds) as a possible means to reduce corruption.[27] Proponents of earmarked funds argue that this system reduces bureaucratic inefficiency, which promotes the swift completion of projects and contributes to reducing costs and increasing the stability of sector funding. The example of the roads sector is useful, since that sector has essentially piloted a version of this system, advocated by donors, with staff receiving increased autonomy from public service rules and procedures when using earmarked funds.

At the end of the 1990s, when the fight against corruption started to become a priority in the roads sector and donors strived to ensure adequate financing for road maintenance, there was a push to establish second-generation road funds and to revise the institutional setup of roads-sector agencies. These agencies were placed under the authority of the board of the National Road Funds Authority (NFRA) in which major road users (such as trucking companies) were represented in order to strengthen accountability and limit political interference. Moreover, NFRA staff members were exempted from the regular condition of civil service in order to increase their motivation and reduce political interference and corruption. As Heggie (1999) noted: “it is the composition of these boards which make them work,” adding, “the procedure in Zambia, where the board [of NRFA] elects is own chairperson, is unusual, although it has worked well”. Zambia adopted this system in the 1990s and expanded it in the early 2000s with the creation of the Road Development Authority (RDA) and the Road Transportation Safety Authority (RTSA).

However, it now appears that these reforms have not necessarily worked as expected. The road agency boards, and in particular that of RDA, do not seem to have been able to avoid political interference in project selection or supervision as described in road audits commissioned by the Office of the Auditor General (OAG). And one of the most important shortcomings of the new institutional arrangements seems to have been the decreased accountability of civil servants working in this sector. And it is not apparent whether any of its putative advantages, such as increased cost-effectiveness, have actually materialized.

[25] Some officers holding management positions in the Public Service are no longer professional civil servants and are more likely to be swayed by outside interests, for instance politicians whose objectives are not necessarily consistent with adherence to regulations (Mwangala 2010).
[26] This is in contrast to policies of the First Republic era, during which the Permanent Secretaries had a longer tenure in office as they worked under permanent and pensionable conditions of service.
[27] For references on this debate see McCleary (1989).

2. Donors' overly ambitious or unrealistic plans to reduce poverty

Whether enshrined in the MDGs or in donors' individual country assistance strategies, optimistic targets are usually set in order to highlight the potentially rapid and dramatic impact of donor-funded development projects. However, some frequently-recurring objectives have proven particularly difficult to realize. Reducing poverty in rural areas, for instance is often a major objective of donors, but in practice a sustained rise in rural incomes has more often been achieved through the gradual migration of the rural poor to urban areas rather than through interventions designed to improve the incomes and living conditions of the rural population. Changing economic policies and implementing structural reforms to generate pro-poor growth is easier said than done, and even with the right policies in place and effective reforms implemented, poverty reduction is a long process that not only relies in a high rate of economic growth (which may be largely dependent on exogenous factors) but is also backed by a firm, ongoing commitment by the government to maintain these policies over time, often against the pressures of influential special interests. This does not imply that reducing poverty rates from 60 to 30 percent, as targeted in the MDGs, is not feasible; but it cannot be achieved by donor involvement alone, and requires a government that is committed to economic growth and capable of implementing a long-term reform program backed by a positive economic climate and the absence of severe exogenous shocks. All of these are circumstances which by their nature cannot be assured. As a result some donor-financed programs may be based more on the assumption of these conditions rather than their reality.

In specific program areas, donors may make specific assumptions that inform program goals but are ultimately unrealistic. It has not escaped the notice of the donor community that rural poverty rates remain very high in Zambia, while urban poverty has fallen substantially in recent years. According to the 2006 LCMS the rural poverty rate was 77 percent, down moderately from 89 percent in 1998; however, during the same period urban poverty dropped by more than half, falling from 56 percent to just 27 percent. Rapidly declining urban poverty rates may lead donors to believe that similar results are possible in rural areas. In practice, this is rarely the case. Even in highly developed countries, reducing rural poverty is generally a result of migration by the poorest to urban areas; industrialized economies also employ well targeted (and expensive) transfer programs, the best of which often enjoy only limited success. Donors in Zambia, however, appear to expect that government policies, and external funding, could have a much more dramatic impact on rural poverty reduction than is actually feasible.

The Zambian government, of course, is not without its share of responsibility for aid ineffectiveness. Zambian rural development policies, for example, frequently suffer from misplaced priorities. While investing in rural access and building feeder roads could have a positive impact in reducing rural poverty, most government (and donor) road funding concentrates on the major national road network. In other areas, such as the education and health sectors, implementation is inconsistent. The government's emphasis on building schools and healthcare centers in rural areas is not matched by a commitment to quality service delivery; as a result, the bulk of resources are used in constructing facilities that function poorly, if at all, and access to education and health services remains limited.

In terms of microeconomic policy, the government has not devoted sufficient resources to interventions that the productivity of the poor and their integration into the formal economy. Workers living near or below the poverty line typically lack the capital necessary to invest in vocational training or other forms of education, even when the returns to education clearly justify the expense. Entrepreneurs in poor areas tend to operate in the informal sector; in many cases procedural burdens—such as costly and time-consuming requirements for obtaining a business license—discourage them from formalization, which in turn limits the scale of their enterprises and reduces aggregate tax revenue. In its approach to antipoverty programming, the Zambian government has consistently focused its resources on the social sectors, whereas economic interventions, such as the provision of more extensive and sophisticated agricultural extension services or efforts to bring informal businesses into the formal economy, could have a greater and more lasting impact.

Because of pressure to demonstrate results, donors have to prove at least partial causality between aid (whether in the form of budget support or project financing) and a range of development outcomes; these usually include specific targets such as changes in poverty rates or indications that service delivery to the poor has improved. The need to establish a causal relationship between donor aid and antipoverty outcomes is a political necessity for the donors, but an inherently difficult and occasionally misleading exercise in practice. As a result of the analytical limitations involved, donors are forced to use proxies for poverty reduction. These proxies typically include the implementation of the budget, especially budget transfers to districts, and, more recently, measures related to the decentralization process or to the quality and sophistication of public financial management. These indicators are important for a variety of reasons, but they do not necessarily correspond to actual reductions in monetary or nonmonetary poverty; nevertheless, they are routinely used as such.

In addition to domestic political and economic concerns (which are more influential for bilateral donors than for multilaterals), the budget processes in most donor countries create pressure for aid agencies to demonstrate quick results. This reinforces the tendency to use process-oriented reform proxies, such as those described above, which do not necessarily reflect the achievement of poverty-reduction objectives. There is a tendency among donors to assume that increased local spending results in greater poverty reduction; however, this link is not necessarily accurate and promoting the efficiency of local spending is in most cases both more important and harder to improve. For example, the Zambian government approved decentralization-related reforms late in 2009, in part due to continuous pressure by donors. The implementation of these reforms has been slow and inconsistent, but even a well-implemented decentralization program would not necessarily guarantee rural poverty reduction—it is an instrumental goal, not a final outcome—but one that is aggressively promoted by donors' aid agencies as a key to reducing rural poverty, even as we know that some pre-requisites need to be in place first to make it succesful.

Similarly, most donors tend to concentrate on reforming the budget process in the interest of poverty reduction. But reducing poverty in Zambia, as in most poor countries, is the result of multiple factors and ultimately depends on the increased productivity of the poor, which is more difficult when poverty is concentrated in remote, sparsely populated, largely agricultural areas. This requires sustained improvements in education, as well as progress in very specific access to infrastructure and services (to better communications, feeder roads, agricultural extension services, finance, etc.). None of these improvements can be implemented quickly or easily, all are expensive, and none are the products of one-year budget cycles.

3. Donors' inadequate quantitative rigor sometimes produces inappropriate strategies

Donors have traditionally dominated the decision-making process that determines which policies are adopted, how aid is spent, and the conditions attached to its release. Although bilateral agencies, and especially multilateral institutions, have increasingly allowed recipient countries greater latitude in the determination of specific reform measures and promoted the collaborative determination of poverty-reduction strategies, recipient country governments have still been expected to adhere to the donors' general priorities.

Reducing poverty and income inequality are usually cited as the primary objectives of donor aid. As noted above, urban poverty in Zambia has declined in recent years, whereas rural poverty has remained relatively high. These trends are the result of an expansion in industrial and service-sector activities, which took place mostly in urban centers. These trends suggest that in the past decade the path out of poverty was through migration to urban areas where the number of jobs increased and productivity was higher than in the rural economy (Millennium Challenge Account 2010).

This situation is not unique to Zambia: most donors and recipient governments in SSA have relied on the overarching assumption that most households in rural areas are not well-connected to markets and therefore need access to a road passable by a cargo truck; as a result, massive investments are made to better connect remote areas with urban centers.[28] Yet the empirical evidence increasingly contradicts the assumption that access will inevitably lead to growth and poverty reduction. The lack of robust evaluations and a comprehensive theoretical framework have lead to ineffective strategies, and this problem is now pervasive. The second Cameroonian national household survey (Enquête Camerounaise Auprès des Ménages II, 2001) and the Cameroon case study by Gachassin *et al.* (2010) demonstrate that investing in sealed roads is likely to have a much lower impact on poverty than is typically expected, while isolation from a sealed road is found to have no direct impact on consumption expenditures. The paper supports the conclusion that access to roads is at best only one factor contributing to poverty reduction, and not necessarily the most important.[29]

Donors' subsequent frustration with the lack of demonstrable progress usually only contributes to a more inefficient allocation of resources. In this case, donors have often responded to disappointing outcomes by increasing expenditures in low-density areas, both in infrastructure and the provision of services rather than by altering their strategies, which might signal that past efforts had been ineffective. These expanded investments produce infrastructure and facilities that are very expensive to maintain, typically continue to produce limited results in terms of poverty reduction, and may facilitate corruption via opaque and unaccountable contracting processes.[30]

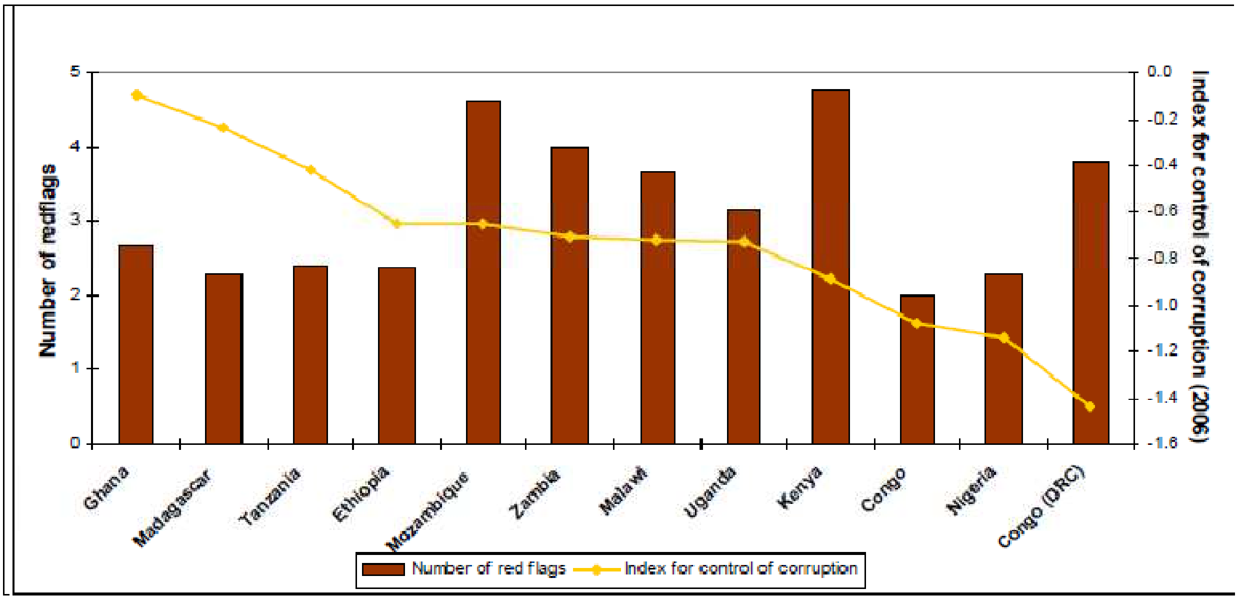
[28] In this context, the Rural Access Index (RAI), which lists the proportion of rural people who live within 2 kilometers of an all-season road, remains the main outcome indicator of road projects in Sub-Saharan Africa and has started to bias investments in favor of rural roads compared to the main and secondary networks.

[29] Jayne *et al.* (2009) demonstrate that land area is one of the most important determinants of income levels. Differences between the lowest and highest quartile are high: the lowest quartile of smallholders has 0.62 hectares to cultivate, whereas the first quartile has 4.98 hectares. This is even more problematic since land allocation in Zambia still depends greatly on local chiefs and may not necessarily be transparent in some communities.

[30] Croix and Delavallade (2009) demonstrate that in a low-income country with poor governance, public investment is typically skewed towards infrastructure.

Even more problematic are the findings of a comparative study (Jayne *et al.*, 2009) assessing road unit costs and corruption "red flags" in SSA countries. Despite the public perception that corruption controls were relatively strong, Zambia had one of the highest recurrent numbers of "red flags"[31] in the project documents reviewed, comparable to those of Mozambique, Kenya and DRC and higher than Nigeria and the Republic of Congo (see Figure 5).

Figure 5: Control-of-Corruption Index and the number of corruption "red flags" normalized by number of reviewed contracts per country



Source: Alexeeva *et al.* (2008). The WBI Control of Corruption Index measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

In the health sector, donors continue to push for no community in Zambia to be less than 5 kilometers from a health facility. Therefore, health facilities continue to be built. However, in an interview in 2010 the chief of planning for the Zambian Ministry of Health acknowledged that even now almost half of the facilities are not fully staffed and do not have the necessary equipment and medicines.

As Devarajan (2010) states, "development is a complex process and so development practitioners frequently resort to rules-of-thumb to guide decision making. To those of us who are constantly looking for simplifications or rules-of-thumb, and believe in the adage 'what you measure gets done'—be careful what you wish for…rules-of-thumb give considerable room for political criteria to dominate investment decision making, and poor people frequently lose out". That is exactly what donors' lack of a comprehensive and quantitatively robust theoretical framework contributes to in education, health, roads and other sectors.

Aid programs can also lead to ineffective reforms in public administration. In a short paper, Rajaram *et al.* (2010) state that during a discussion on public service management

[31] The main patterns are the following: 1. Difference between contract price and read-out bid price is >10 percent, 2. Winning bid not the lowest bid accepted for detailed examination, 3. More than 7 month period from bid opening to contract signing, 4. Half or more firms buying bidding documents don't bid. See Alexeeva *et al.* 2008 for more details.

(PSM) reform in Zambia, a senior official explained: "in order to implement PSM, I had been asked to provide cars to reforms teams, we did it; then, we were asked to provide computers, we did that too; then, we were asked to provide them formal training overseas, we did that as well; they came back and what happened?... Nothing! There was no greater capacity to reform despite these investments. Why is it so? *Because reforming the public sector requires a change in the behavior and mindsets of people; cars, computers and formal training do not help in most cases*…. The day a project is initiated, our problems begin. Because of differentiated treatment of those in project units and the mention of vast sums of funds, civil servants outside the project unit do not wish to cooperate and consider the reform as alien to them and do not try to implement project tasks and certainly do not change behaviors".

One could argue that without providing financial aid, donors' leverage over government efficiency would be low, and their ability to reduce corruption and promote good governance would be effectively restricted to whatever modest results might be achieved through diplomatic pressure. However, is spending $10-20 million for a governance-reform project the best way to convince civil servants to be more productive and change their behaviors? Once again, instrumental goals may be achieved, but final objectives remain elusive. Moreover the promise of providing significant financial resources to government agencies is often not merely ineffective, but appears to promote perverse incentives. In many countries a project becomes a way to extract and share rents rather than achieve improved public sector performance.

In many cases there also seems to be a marked tendency on the part of recipient governments to amplify the "needs" of the country in order to attract more aid. In Zambia, the latest LCMS (2006) has yet to be officially published, apparently in part because the data shows a dramatic reduction in urban poverty and a more modest but still significant decline in rural poverty. Meanwhile, the minimum caloric intake used to define a key dimension of poverty in Zambia has been revised upwards.

V. Conclusion and a possible way forward

Zambia has many characteristics of an aid-dependent country and, *inter alia*, the fact that the GRZ does not collect its full potential of domestic revenues (especially mining taxes) may be due to the near-certainty that it will continue to receive substantial aid flowing with limited constraints.

According to McPherson (2004.2), "After three decades of the misapplication of resources by the government and the donor community in Zambia, there is almost zero prospect that foreign aid can be made effective. […] For Zambia to grow and develop, foreign aid as we know it has to end". He goes on to offer an "exit strategy" for the donor community. This proposal, however, appears to be excessive, especially given the lessons of successful projects implemented in recent years. But if aid is to continue, its efficacy and efficiency must be radically improved.

There are at least six ways in which aid could be made more effective in achieving its objectives in Zambia and in other aid dependent countries:

1. *Thoroughly evaluate the assumptions on which aid-related projects, and their objectives, are based; donors frequently design aid programs around unrealistic assumptions regarding the nature of the problem or the strategies that might be effective in addressing it. Pay particular attention to superficially reasonable but unsubstantiated conclusions (quality rural roads greatly increase rural incomes) and to spurious comparisons (urban poverty has decreased rapidly, therefore the same is possible for rural poverty). Successful projects are based on rigorous analytical work, not educated guesses.*
2. *Alleviate pressure on aid agencies and their staff members to demonstrate immediate, tangible results, and focus instead on achievements sustained over time; unstaffed or ill-equipped facilities, unmaintained infrastructure, and swiftly reversed or unenforced policy reforms are all emblematic of wasteful and ineffective uses of aid, yet aid agencies' frequent emphasis on producing demonstrable results in the short-term virtually ensures that they will continue to be commonplace. Aid agencies and their controlling policymakers must shift toward a more accurate concept of success, which is often not a matter of achieving objectives, but rather of sustaining those objectives over the long term. Donor assessments of aid projects should reflect the importance of enduring progress.*
3. *Lower both the donor and the recipient government's expectations regarding what aid can accomplish; aid is only capable of achieving a limited range of objectives, and in many cases worthwhile progress is necessarily modest and slow. Unrealistic projections lead to inefficient or even ineffective strategies; when aid programs are not achieving the desired results, donors should not simply double-down and invest more, but should candidly assess their approach and consider strategic changes.*
4. *Develop a better understanding of the perverse effects of aid on the recipient government and take steps to limit them; both project-based aid and budget support instruments can undermine their own objectives if they do not account for the incentives of the public-sector agents and agencies responsible for implementing them. In the end, the professional goals of politicians and civil servants matter much more to the success of aid-financed programs than do the goals of donors or even the stated objectives of the recipient government as a whole.*
5. *Increase aid recipient governments' accountability for the success of donor projects; the tendency to rely on instrumental, process-oriented goals as proxies for final outcomes skews recipient incentives, encouraging the adoption of superficial or unenforced reforms and promoting investments in physical infrastructure that are not matched by adequate long-term funding. If more analytical work is necessary to evaluate final outcomes, donors should invest in it, as in most cases an accurate assessment of the ultimate success of a project is well worth the cost.*
6. *Assess the relevance of strategies advocated by donors in the context of the recipient country; donor governments and their aid agencies often attempt to apply successful models from one country to another without sufficient attention to the different circumstances in which they are now operating. This may be compounded by aid professionals' habit of moving from country to country and their tendency to rely on past experience to make current decisions. Both of these features of aid agencies are potential advantages, as breadth of experience should inform solid program design; however, what was true in one country (or one region of the same country), or true at one time, may not be true to the present context. Again, rigorous analytical work is critical: two cases can only be considered comparable if the specific circumstances necessary for project success are similar.*

A source of potential distortions and perverse incentives is related to the strict microeconomic effect of aid on the domestic job market. Although apparently limited in size, the aid industry demands a substantial amount of intellectual labor, which in many cases could be put to more productive use in government or the private sector. This situation, however, is greatly dependant on the gross human capital formation and employment conditions of the recipient country. In Zambia and throughout much of SSA, education (and particularly higher education) systems are weak, emigration of skilled professionals is common, and domestic human capital is consequently very limited. In this environment, the distortive effects of aid-agency employment on the recipient labor market are strong, especially in countries with a small total population in which aid-related employment represents a nontrivial share of the job market. In this context, the human capital supplied by international professionals should be used in greater proportion than might be the case in countries, such as in Asia or Latin America, with larger populations and higher percentages of educated professionals. A further concern in hiring a large local aid staff, particularly for budget-support operations, is the potential creation of an influential domestic constituency with ties to the government and a clear incentive to maintain large aid volumes. All of these factors should be taken into account when hiring aid professionals.[32]

A related negative effect of aid is the development of rent-seeking behavior by economic agents, including both recipient-government officials and aid-agency professionals. The ready availability, and often effectively unconditional provision, of donor financing tends to perpetuate and increase aid flows regardless of their necessity and to the exclusion of domestically-mobilized resources. Rent-seeking behavior distorts the objectives of aid by generating self-perpetuating mechanisms in which the goal is to continue to attract funding rather than to achieve results. In fact, recipient governments may attempt to obscure evidence of development success and accentuate their perceived needs in order to obtain ever more external financing. This is especially problematic in the case of Zambia, where the government has delayed reports and redefined baselines in order to hide declining poverty rates, and where revenue collection from domestic sources, especially from politically influential mining companies, is very low.[33] There is also a strong incentive for donor agents to collude in the effort to keep aid flowing, since—whether they are principally foreign or domestic hires—aid flows are the source of their employment and the volume of resources they manage often forms at least part of the basis for their professional advancement.

There is a pressing need to substantially revise the overall incentive structure faced by donors. Donors are frequently under political pressure to justify their aid budgets; this pressure often manifests as overly ambitious objectives, such as dramatically reducing poverty or radically increasing economic growth rates, outcomes which are heavily dependent on a number of factors that cannot be influenced by any aid program. These objectives are then transformed into budget allocations that must be executed regardless of their potential for success.

[32] It should be noted that this is a complex and controversial subject, and this is not meant to be the final word on the matter. Although a thorough explication of the arguments for and against the hiring of large numbers of local staff is beyond the scope of this paper, and such decisions should be made according to the specific context of individual countries, the summary presented above is accurate for most countries in SSA.

[33] Lundstøl (2009) points out that, despite increased mining production in the last decade, domestic revenues as percentage of GDP decreased from 25-30 percent from independence to mid 1970s, above 20 percent mid 1970s to early 1990s and 16-18 percent 1990s and 2000s while the average for African low middle income countries is around 22 percent.%. Multiplying by a factor of 2 or 3 revenues collected from mining companies would lead to reach the SSA low-income average, which is equivalent to a large part of donor financing.

The World Bank is in many respects no different from other donors, as is evident in the case of many International Development Association (IDA) countries, including Zambia. IDA allocations are predetermined every three years according to a set of policy and institutional developments, and disbursement shares between budget support and projects are established according to the Country Assistance Strategy. If the allocation to the road sector, for instance, was deemed to be the most important priority, the fact that corruption in the road sector in Zambia has been recently discovered to be a major issue presents a problem for IDA: how to disburse funds to a sector riddled with corruption? (Note that the question is not *whether* to disburse funds to a sector riddled with corruption.) This is even more complicated if the Bank's Board of Directors has already approved a credit and IDA now has to convince the government to make changes in the institutional structure of the road sector so as to be able to execute the disbursement according to the conditions of the credit, and not necessarily in a way that addresses the sector's actual problems.

The imperative to disburse funds leads donors to be overly concerned with instrumental goals and processes rather than the achievement of final objectives. Even if support to a specific project does not accomplish its intended goal, donors will often continue supporting the same project because it is part of a long-term budgetary decision. Worse, in some cases a lack of progress may itself be perceived (or simply used) as a reason to increase financial support for a given project, since failure can always be attributed to inadequate funding. This is one aspect of a pervasive and increasingly well-recognized problem: donor agents constantly face incentives to continue or increase funding, but never to reduce it. Gunning (2008) puts it bluntly: "careers are […] based on disbursing rather than withholding money". Donors must react more quickly when circumstances change or when projects do not accomplish their intended objectives. It is only after many years of supporting a project, and generally after a final evaluation has been done, that donors fully assess its impact. This remains the case despite the fact that support to such projects could have been beneficially modified or even ended years earlier and those funds used elsewhere had more proactive evaluations, and corresponding policy decisions, been made while they were still ongoing.

Projects need to be evaluated by independent agencies outside of the donor country, its institutions and associated contractors. Internal evaluations create a clear conflict of interest that interferes with the frank evaluation of projects and the operation of continuous and effective feedback mechanisms. To this end the World Bank office in Zambia undertook a pilot program covering several projects in which it received independent evaluations provided by project beneficiaries; the office plans to expand this system to all Bank-financed projects in the country in order to get more accurate and objective feedback, collected by an independent source, on the actual impact of these projects. The frequent, rigorous and objective evaluation of development programs—and the identification of those that achieve their objectives, as well as those that fail--are of enormous importance for international organizations, governments, donors, and NGOs, yet they are frequently dispensed with in favor of internal assessments, often produced months or even years after the project has ended.[34]

[34] Several methods are traditionally used to measure the impact of development programs, e.g. propensity score matching, difference-in-difference estimates, and regression discontinuity design. Many econometric procedures and comparison groups used in program evaluations do not yield to accurate or precise estimates, and they often differ significantly from experimental results (LaLonde, 1986). Although the treatment effect for each person cannot always be identified through experiments, it is possible to vary one factor at a time and therefore provide internally valid estimates of the average treatment effect for a population of interest (Banerjee and Duflo, 2009)

In conclusion, it is clear that for Zambia and other aid-dependent countries the time has come to change how aid programs are designed, how aid is delivered, how the incentives of donor agents and recipient-government officials are arrayed, and how aid-financed projects are evaluated. For the variety of reasons described above aid continues to fail to produce its expected and necessary impact. The challenge of aid dependency is systemic, and involves donors and recipient countries alike. Perverse and conflicting incentives, a pervasive focus on instrumental goals over ultimate outcomes, inaccurate assumptions and distorted expectations, and administrative mechanisms that resist beneficial change all serve to undermine the fundamental purposes of aid. Addressing these challenges will not be easy, but as the saying goes, nothing worthwhile ever is.

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Annex 1: Aid distribution by sector

The aid distribution from bilateral and multilateral donors shows that over the analyzed period (1995-2009) the flows were mainly directed to social sectors, especially health sector; to the action related to debt relief; and it was also distributed as program assistance in the form of general budget support. The distribution seems to have been poverty oriented. Hence it does not look to have contributed to poverty reduction given that today almost two third of population live on or below the poverty line.

ODA distribution by sector, 1995-2009, (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2004	2006	2007	2008	2009
Social infrastructure	**36**	**46**	**25**	**24**	**24**	**36**	**48**	**41**	**39**	**25**	**28**	**35**	**46**	**53**	**42**
Education	2	4	3	10	13	2	10	10	14	7	7	4	7	7	4
Health	10	6	1	3	5	4	19	13	5	3	5	14	10	7	4
Pop. Pol./Progr &Reproductive	3	1	2	2	1	3	5	9	15	5	8	7	17	27	24
Water Supply & Sanitation	7	1	15	8	1	8	6	2	2	2	3	3	5	4	2
Government & Civil Society	9	12	2	1	3	14	4	4	2	4	5	6	5	4	6
Other Social Infrastructure &	5	23	2	1	1	4	5	3	1	3	0	1	2	3	1
Economic infrastructure	**5**	**22**	**21**	**30**	**13**	**8**	**12**	**8**	**3**	**15**	**1**	**5**	**14**	**10**	**17**
Transport & Storage	4	19	19	7	10	4	6	7	0	12	0	4	13	7	9
Communications	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0
Energy	0	0	1	20	1	0	0	0	0	0	1	0	0	3	5
Banking & Financial Services	0	1	0	0	0	3	5	0	0	2	0	1	0	0	1
Business & Other Services	0	2	1	2	1	1	1	0	3	1	0	0	1	0	2
Production sectors	**14**	**11**	**21**	**4**	**5**	**20**	**4**	**7**	**11**	**7**	**7**	**10**	**3**	**2**	**7**
Agriculture, Forestry, Fishing	13	8	5	3	5	3	2	4	2	4	2	4	2	2	6
Industry, Mining, Construction	1	2	16	0	0	17	2	3	9	2	4	7	0	0	1
Trade Policies & Regulations	0	0	0	2	0	0	0	0	0	0	0	0	0	0	1
Tourism	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multi-sector/Cross-cutting	**3**	**1**	**6**	**3**	**4**	**1**	**2**	**4**	**5**	**3**	**2**	**2**	**3**	**3**	**2**
Commodity aid / General Prog.	**25**	**3**	**1**	**15**	**29**	**14**	**24**	**25**	**15**	**21**	**11**	**8**	**27**	**31**	**30**
General Budget Support	22	0	0	13	29	14	23	22	14	20	10	8	26	30	28
Dev. Food Aid/Food Security	3	3	0	1	0	0	1	1	0	1	1	1	1	1	2
Other Commodity Assistance	0	0	0	2	0	0	0	1	0	0	0	0	0	0	0
Action Relating to Debt	**16**	**16**	**25**	**23**	**23**	**21**	**9**	**11**	**25**	**30**	**50**	**38**	**6**	**0**	**1**
Humanitarian Aid	**0**	**0**	**0**	**0**	**1**	**0**	**1**	**4**	**2**	**1**	**1**	**1**	**1**	**1**	**2**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Annex 2: The outcomes of selected aid-financed programs in the last decade

The Basic Education Sub-Sector Investment Programme (BESSIP)

The Basic Education Sub-Sector Investment Programme (BESSIP) is a SAPp covering the primary education sector. It was implemented by the GRZ through its Ministry of Education, starting in 1999. and was organized to achieve the following objectives: (1) increasing the gross enrollment ratio (GER); (2) reducing the gap between the gross and net enrollment rates (NER); and (3) improving the quality of primary education; a fourth objective was added in a revised version of the program (BESSIP1) specifying the construction of two secondary schools in the Eastern Province.

The first BESSIP objective was achieved: in fact the target, which was to increase the GER to 100 percent in grades 1-7 by 2005, was exceeded. The elimination of school fees was clearly also a strong factor. According to the 2004 World Bank Country Assistance Strategy (CAS) enrollment grew by 2 percent during the three years of BESSIP1 (1999-2001), below the population growth rate and well below the7 percent rate observed after the free education initiative was announced. Progress in other areas was also substantial: the completion rate increased from 66 to 82 percent from 1998 to 2005; the dropout rate decreased on average from 5 to 2.8 percent; and the grade-repetition rate fell from 7 to 6.6 percent.

However, improvements under the third objective were negligible. Learning achievement, based on standardized test scores, was measured in grade 5 in 1999 and 2003. The results indicate a slight increase in English scores from 33 to 34 percent, and in Mathematics from 34 to 38 percent. Measuring achievement in 2005, as originally planned, would have provided more time for achievement to improve as results in this area are not instant. Holding achievement rates constant during a period of rapid enrollment expansion could be considered an accomplishment, but the expansion would not have reached grade 5 by 2003. More relevant is the fact that the availability of books was below planned levels (1 book for 3-4 children compared to the planned 1 book for 2); school health programs were not widely implemented; curriculum revisions were not completed; and hours of instruction (already low by African standards according to the 2004 CAS) were falling even further due to more double- and triple-shifting.

The achievement of the fourth objective was also far from satisfactory. The construction of the two schools was delayed and overly expensive (costs exceeded the budget and they were above the norm for this type of school). Moreover, when the schools were finally completed water and electricity were not yet available.

Problems with book distribution were never fully resolved, nor was there a clear plan for decentralized book procurement. Finally, although the hiring of teachers has begun again, it will take time and perseverance before there are enough trained teachers to provide quality instruction in the poorest communities.

The Zambia Social Recovery Program (SRP)

Another example of uneven results between instrumental and final objectives is the Zambia Social Recovery Program (SRP), which was initiated in 1991 and administered by the Ministry of Finance. The SRP is not a SWAp, and funding was directed to several sectors: (i) *education* - to rehabilitate school buildings and provide furniture and basic equipment; (ii) *health* - to rehabilitate or construct health posts and medical centers and to provide basic equipment, furniture and an initial complement of medical supplies; and (iii) *other sectors* - to finance basic economic infrastructure such as rural roads, bridges and marketplaces, water and sanitation systems, and irrigation projects.

Several positive impacts were observed in these sectors. In the *education sector* the funds enhanced school attendance: 78 percent of children in treatment communities attended school compared to 71 percent in pipeline communities. In the *health sector* the funds have: (1) increased the probability of a household to report that someone had been sick in the past two weeks from the 41 percent in both the pipeline and PSM (Propensity Score Matching) communities to 49 percent in communities where funds supported a health project; this result may be partially explained by the fact that social-fund health interventions have reached areas with higher rates of sickness; (2) decreased the probability to report a case of diarrhea from 14 percent of households that reported sickness in the PSM and pipeline groups to 8.6 percent in the treatment group; (3) decreased the probability of not seeking treatment in communities that reported sickness from 49 percent in the two control groups to 38 percent in social -fund communities. However, when considering the incidence of diarrhea or likelihood of seeking treatment among all households, not conditioned on reporting illness, no significant difference between the treatment and control groups is found, which suggests that the funds had no effect on the actual level of sickness in communities, though it did increase community awareness of health issues.

The Economic Management and Growth Credit II (EMGC II)

The Economic Management and Growth Credit II (EMGC II) aimed at providing support to the government in order to: (1) pursue reforms in Zambia's macroeconomic framework in a manner conducive to robust growth; (2) strengthen the credibility and institutional capacity of the public sector; (3) enhance Zambia's growth opportunities while improving its poverty impact.

Achievements under the first objective were substantial. The operation was especially concerned with reducing arrears to the public service pension fund (PSPF) and to establish the Credit Reference Bureau Africa Limited (CRBAL) to improve private-sector access to financing. Since the EMCG II was initiated there has been a significant reduction in arrears to the pension fund, which declined from ZMK 388 billion at the end of 2006 to ZMK 93 billion at the end of 2008. The CRBAL was successfully established and appears to have been responsible for a remarkable improvement in the "Getting Credit" indicator in the Doing Business Report 2010, with Zambia moving from a rank of 68 to 30 between June 2008 and May 2009.

Progress in the area targeted by the second objective, public-sector credibility and institutional capacity, was also substantial. The 2008 Public Expenditure and Financial Accountability Assessment (PEFA) report indicates that an automated Payroll Management System is now in place. Budget execution improved, as did policy consistency and the sustained financing of priority programs. The credibility of the budget has also increased, with execution determined to be "to a large extent" in accordance with the estimates approved by the Zambian Parliament. Domestic arrears were reduced substantially in fiscal year 2008. The overall PEFA rating increased from 2.2 to 2.7 between 2005 and 2008.

However, progress on the third objective was only modest and variable. In order to promote a private sector-led economic development strategy, the Zambia Development Agency (ZDA) was created. One of its major accomplishments was to reduce the number of days required to start a business from 35 days in 2005 to 10 days in 2007. With regard to the agricultural sector an initiative supported by the EMGC II was to provide help to the Ministry of Agriculture and Cooperatives for the drafting and finalization of the Agricultural Marketing Act. However, this act was not submitted to Parliament in 2008 as anticipated (nor had it been submitted by April 2010), and the delay in implementing these reforms continues to constrain development in the agricultural sector, which would have the potential to significantly improve growth, employment, and poverty reduction. Concerning infrastructure, the increase in staffing for the road agencies was completed, and a system for maintaining the national core road network now exists. However, a survey showed a significant deterioration in the condition of unpaved core roads.

The Joint Assistance Strategy for Zambia (JASZ)

The recently completed evaluation of the Joint Assistance Strategy for Zambia (JASZ) 2007-2010, described above, provides very interesting insights into aid effectiveness in the country. According to the first evaluation (Oxford Policy Management 2010), this initiative has led to a more structured process for managing support to the GRZ, but "it is too early to say if this will have a beneficial developmental outcome". Although the JASZ addresses all five commitments under the Paris Declaration, most of the actions completed to date involve donor harmonization and the alignment of lending goals. The effects of this process have been positive, and have produced:

- Greater coordination among CPs and efforts to develop more coordinated dialogue with GRZ, which decreased the variety of bilateral demands on the Ministries' top management.
- Improved information sharing amongst CPs in general, and at the sector level in particular; this appears to have reduced overlap between projects, and at sector level information has been shared about successful approaches adopted by other CPs in the same sector.
- The implementation of the Division of Labor Matrix has resulted in decongestion in some sectors; for certain CPs it has encouraged greater focus in their country programs.
- The processes developed in Zambia have been genuinely inclusive of those CPs that are unable or reluctant to give Poverty Related Budget Support (PRBS).

However, according to the evaluators, there is little evidence that the JASZ has promoted greater country ownership at the national level and, even more importantly, "less obvious progress [has been made] with regard to aid effectiveness and development outcomes". It could therefore be inferred that the JASZ has become more an end in itself than an instrumental process designed to achieve larger development objectives. Moreover, the report highlighted that there has not been an obvious reduction of the total number of projects in the health or education sectors, despite better coordination between the government leadership and CPs.

The report also raised questions over the nature of the role of the GRZ in the absence of a comprehensive Aid Policy and Strategy, especially given the weakness of GRZ's aid-related budgetary systems and processes for aid management, its apparent inability to adopt an effective cross-sector strategic view on aid issues (Oxford Policy Management 2010).

In each of these cases the same pattern emerges: the initiative's instrumental goals are achieved, but these are insufficient to fully realize the final goals of the operation. School attendance increases, but educational attainment does not measurably improve; people in rural areas become more likely to report an illness, but incidence of illness remains the same; new public agencies are established, but progress in the areas for which they were created is highly uneven; new forums and joint-strategies are developed by donors, but substantive cooperation remains very limited. This is not to say that these efforts have not produced results, but those results tend to be modest, variable, and clustered around the attainment of specific, process-oriented changes rather than the addressing the broader development outcomes that are the ultimate goal of the operations.